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## Why Foreign Aid Is Hurting Africa

*Money from rich countries has trapped many African nations in a cycle of corruption, slower economic growth and poverty. Cutting off the flow would be far more beneficial, says Dambisa Moyo.*

By **DAMBISA MOYO**

A month ago I visited Kibera, the largest slum in Africa. This suburb of Nairobi, the capital of Kenya, is home to more than one million people, who eke out a living in an area of about one square mile -- roughly 75% the size of New York's Central Park. It is a sea of aluminum and cardboard shacks that forgotten families call home. The idea of a slum conjures up an image of children playing amidst piles of garbage, with no running water and the rank, rife stench of sewage. Kibera does not disappoint.

What is incredibly disappointing is the fact that just a few yards from Kibera stands the headquarters of the United Nations' agency for human settlements which, with an annual budget of millions of dollars, is mandated to "promote socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all." Kibera festers in Kenya, a country that has one of the highest ratios of development workers per capita. This is also the country where in 2004, British envoy Sir Edward Clay apologized for underestimating the scale of government corruption and failing to speak out earlier.

Giving alms to Africa remains one of the biggest ideas of our time -- millions march for it, governments are judged by it, celebrities proselytize the need for it. Calls for more aid to Africa are growing louder, with advocates pushing for doubling the roughly \$50 billion of international assistance that already goes to Africa each year.

Yet evidence overwhelmingly demonstrates that aid to Africa has made the poor poorer, and the growth slower. The insidious aid culture has left

African countries more debt-laden, more inflation-prone, more vulnerable to the vagaries of the currency markets and more unattractive to higher-quality investment. It's increased the risk of civil conflict and unrest (the fact that over 60% of sub-Saharan Africa's population is under the age of 24 with few economic prospects is a cause for worry). Aid is an unmitigated political, economic and humanitarian disaster.

Few will deny that there is a clear moral imperative for humanitarian and charity-based aid to step in when necessary, such as during the 2004 tsunami in Asia. Nevertheless, it's worth reminding ourselves what emergency and charity-based aid can and cannot do. Aid-supported scholarships have certainly helped send African girls to school (never mind that they won't be able to find a job in their own countries once they have graduated). This kind of aid can provide band-aid solutions to alleviate immediate suffering, but by its very nature cannot be the platform for long-term sustainable growth.

Whatever its strengths and weaknesses, such charity-based aid is relatively small beer when compared to the sea of money that floods Africa each year in government-to-government aid or aid from large development institutions such as the World Bank.

Over the past 60 years at least \$1 trillion of development-related aid has been transferred from rich countries to Africa. Yet real per-capita income today is lower than it was in the 1970s, and more than 50% of the population -- over 350 million people -- live on less than a dollar a day, a figure that has nearly doubled in two decades.

Even after the very aggressive debt-relief campaigns in the 1990s, African countries still pay close to \$20 billion in debt repayments per annum, a stark reminder that aid is not free. In order to keep the system going, debt is repaid at the expense of African education and health care. Well-meaning calls to cancel debt mean little when the cancellation is met with the fresh infusion of aid, and the vicious cycle starts up once again.

In 2005, just weeks ahead of a G8 conference that had Africa at the top of its agenda, the International Monetary Fund published a report entitled "Aid Will Not Lift Growth in Africa." The report cautioned that governments, donors and campaigners should be more modest in their claims that increased aid will solve Africa's problems. Despite such comments, no serious efforts have been made to wean Africa off this debilitating drug.

The most obvious criticism of aid is its links to rampant corruption. Aid flows destined to help the average African end up supporting bloated bureaucracies in the form of the poor-country governments and donor-funded non-governmental organizations. In a hearing before the U.S. Senate Committee on Foreign Relations in May 2004, Jeffrey Winters, a professor at Northwestern University, argued that the World Bank had participated in the corruption of roughly \$100 billion of its loan funds intended for development.

As recently as 2002, the African Union, an organization of African nations, estimated that corruption was costing the continent \$150 billion a year, as international donors were apparently turning a blind eye to the simple fact that aid money was inadvertently fueling graft. With few or no strings attached, it has been all too easy for the funds to be used for anything, save the developmental purpose for which they were intended.

In Zaire -- known today as the Democratic Republic of Congo -- Irwin Blumenthal (whom the IMF had appointed to a post in the country's central bank) warned in 1978 that the system was so corrupt that there was "no (repeat, no) prospect for Zaire's creditors to get their money back." Still, the IMF soon gave the country the largest loan it had ever given an African nation. According to corruption watchdog agency

Transparency International, Mobutu Sese Seko, Zaire's president from 1965 to 1997, is reputed to have stolen at least \$5 billion from the country.

It's scarcely better today. A month ago, Malawi's former President Bakili Muluzi was charged with embezzling aid money worth \$12 million. Zambia's former President Frederick Chiluba (a development darling during his 1991 to 2001 tenure) remains embroiled in a court case that has revealed millions of dollars frittered away from health, education and infrastructure toward his personal cash dispenser. Yet the aid keeps on coming.

A nascent economy needs a transparent and accountable government and an efficient civil service to help meet social needs. Its people need jobs and a belief in their country's future. A surfeit of aid has been shown to be unable to help achieve these goals.

A constant stream of "free" money is a perfect way to keep an inefficient or simply bad government in power. As aid flows in, there is nothing more for the government to do -- it doesn't need to raise taxes, and as long as it pays the army, it doesn't have to take account of its disgruntled citizens. No matter that its citizens are disenfranchised (as with no taxation there can be no representation). All the government really needs to do is to court and cater to its foreign donors to stay in power.

Stuck in an aid world of no incentives, there is no reason for governments to seek other, better, more transparent ways of raising development finance (such as accessing the bond market, despite how hard that might be). The aid system encourages poor-country governments to pick up the phone and ask the donor agencies for next capital infusion. It is no wonder that across Africa, over 70% of the public purse comes from foreign aid.

In Ethiopia, where aid constitutes more than 90% of the government budget, a mere 2% of the country's population has access to mobile phones. (The African country average is around 30%.) Might it not be preferable for the government to earn money by selling its mobile phone license, thereby generating much-needed development income and also providing its citizens with telephone service that could, in turn, spur economic activity?

Look what has happened in Ghana, a country where after decades of military rule brought about by a coup, a pro-market government has yielded encouraging developments. Farmers and fishermen now use mobile phones to communicate with their agents and customers across the country to find out where prices are most competitive. This translates into numerous opportunities for self-sustainability and income generation -- which, with encouragement, could be easily replicated across the continent.

To advance a country's economic prospects, governments need efficient civil service. But civil service is naturally prone to bureaucracy, and there is always the incipient danger of self-serving cronyism and the desire to bind citizens in endless, time-consuming red tape. What aid does is to make that danger a grim reality. This helps to explain why doing business across much of Africa is a nightmare. In Cameroon, it takes a potential investor around 426 days to perform 15 procedures to gain a business license. What entrepreneur wants to spend 119 days filling out forms to start a business in Angola? He's much more likely to consider the U.S. (40 days and 19 procedures) or South Korea (17 days and 10 procedures).

Even what may appear as a benign intervention on the surface can have damning consequences. Say there is a mosquito-net maker in

small-town Africa. Say he employs 10 people who together manufacture 500 nets a week. Typically, these 10 employees support upward of 15 relatives each. A Western government-inspired program generously supplies the affected region with 100,000 free mosquito nets. This promptly puts the mosquito net manufacturer out of business, and now his 10 employees can no longer support their 150 dependents. In a couple of years, most of the donated nets will be torn and useless, but now there is no mosquito net maker to go to. They'll have to get more aid. And African governments once again get to abdicate their responsibilities.

In a similar vein has been the approach to food aid, which historically has done little to support African farmers. Under the auspices of the U.S. Food for Peace program, each year millions of dollars are used to buy American-grown food that has to then be shipped across oceans. One wonders how a system of flooding foreign markets with American food, which puts local farmers out of business, actually helps better Africa. A better strategy would be to use aid money to buy food from farmers within the country, and then distribute that food to the local citizens in need.

Then there is the issue of "Dutch disease," a term that describes how large inflows of money can kill off a country's export sector, by driving up home prices and thus making their goods too expensive for export. Aid has the same effect. Large dollar-denominated aid windfalls that envelop fragile developing economies cause the domestic currency to strengthen against foreign currencies. This is catastrophic for jobs in the poor country where people's livelihoods depend on being relatively competitive in the global market.

To fight aid-induced inflation, countries have to issue bonds to soak up the subsequent glut of money swamping the economy. In 2005, for example, Uganda was forced to issue such bonds to mop up excess liquidity to the tune of \$700 million. The interest payments alone on this were a staggering \$110 million, to be paid annually.

The stigma associated with countries relying on aid should also not be underestimated or ignored. It is the rare investor that wants to risk money in a country that is unable to stand on its own feet and manage its own affairs in a sustainable way.

Africa remains the most unstable continent in the world, beset by civil strife and war. Since 1996, 11 countries have been embroiled in civil wars. According to the Stockholm International Peace Research Institute, in the 1990s, Africa had more wars than the rest of the world combined. Although my country, Zambia, has not had the unfortunate experience of an outright civil war, growing up I experienced first-hand the discomfort of living under curfew (where everyone had to be in their homes between 6 p.m. and 6 a.m., which meant racing from work and school) and faced the fear of the uncertain outcomes of an attempted coup in 1991 -- sadly, experiences not uncommon to many Africans.

Civil clashes are often motivated by the knowledge that by seizing the seat of power, the victor gains virtually unfettered access to the package of aid that comes with it. In the last few months alone, there have been at least three political upheavals across the continent, in Mauritania, Guinea and Guinea Bissau (each of which remains reliant on foreign aid). Madagascar's government was just overthrown in a coup this past week. The ongoing political volatility across the continent serves as a reminder that aid-financed efforts to force-feed democracy to economies facing ever-growing poverty and difficult economic prospects remain, at best, precariously vulnerable. Long-term political success can only be achieved once a solid economic trajectory has been established.

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*The 1970s were an exciting time to be African. Many of our nations had just achieved*

*independence, and with that came a deep sense of dignity, self-respect and hope for the future.*

[Read an excerpt from "Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa"](#)

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Proponents of aid are quick to argue that the \$13 billion (\$100 billion in today's terms) aid of the post-World War II Marshall Plan helped pull back a broken Europe from the brink of an economic abyss, and that aid could work, and would work, if Africa had a good policy environment.

The aid advocates skirt over the point that the Marshall Plan interventions were short, sharp and finite, unlike the open-ended commitments which imbue governments with a sense of entitlement rather than encouraging innovation. And aid supporters spend little time addressing the mystery of why a country in good working order would seek aid rather than other, better forms of financing. No country has ever achieved economic success by depending on aid to the degree that many African countries do.

The good news is we know what works; what delivers growth and reduces poverty. We know that economies that rely on open-ended commitments of aid almost universally fail, and those that do not depend on aid succeed. The latter is true for economically successful countries such as China and India, and even closer to home, in South Africa and Botswana. Their strategy of development finance emphasizes the important role of entrepreneurship and markets over a staid aid-system of development that preaches hand-outs.

African countries could start by issuing bonds to raise cash. To be sure, the traditional capital markets of the U.S. and Europe remain challenging. However, African countries could explore opportunities to raise capital in more non-traditional markets such as the Middle East and China (whose foreign exchange reserves are more than \$4 trillion). Moreover, the current market malaise provides an opening for African countries to focus on acquiring credit ratings (a prerequisite to accessing the bond markets), and preparing themselves for the time when the capital markets return to some semblance of normalcy.

Governments need to attract more foreign direct investment by creating attractive tax structures and reducing the red tape and complex regulations for businesses. African nations should also focus on increasing trade; China is one promising partner. And Western countries can help by cutting off the cycle of giving something for nothing. It's time for a change.

***Dambisa Moyo, a former economist at Goldman Sachs, is the author of "Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa."***

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